

Auditing Procedures Report

Issued under Public Act 2 of 1988, as amended.

Unit Name	Tuscola County Road Commission	County	TUSCOLA	Type	COUNTY	MuniCode	79-0-100
Opinion Date	Apr 20, 2008	Audit Submitted	Jun 12, 2008	Fiscal Year	2007		

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No".

<input checked="" type="checkbox"/>	1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?
<input checked="" type="checkbox"/>	2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
<input type="checkbox"/>	3. Were the local unit's actual expenditures within the amounts authorized in the budget?
<input checked="" type="checkbox"/>	4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?
<input checked="" type="checkbox"/>	5. Did the local unit adopt a budget for all required funds?
<input checked="" type="checkbox"/>	6. Was a public hearing on the budget held in accordance with State statute?
<input checked="" type="checkbox"/>	7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?
<input checked="" type="checkbox"/>	8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?
<input checked="" type="checkbox"/>	9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
<input checked="" type="checkbox"/>	10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.)
<input checked="" type="checkbox"/>	11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)
<input checked="" type="checkbox"/>	12. Is the local unit free of repeated reported deficiencies from previous years?
<input checked="" type="checkbox"/>	13. Is the audit opinion unqualified?
	14. If not, what type of opinion is it? <input type="text" value="NA"/>
<input checked="" type="checkbox"/>	15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
<input checked="" type="checkbox"/>	16. Has the board or council approved all disbursements prior to payment as required by charter or statute?
<input checked="" type="checkbox"/>	17. To your knowledge, were the bank reconciliations that were reviewed performed timely?
<input type="checkbox"/>	18. Are there reported deficiencies?
<input type="checkbox"/>	19. If so, was it attached to the audit report?

General Fund Revenue:	\$ 13,707,820.00
General Fund Expenditure:	\$ 13,052,654.00
Major Fund Deficit Amount:	\$ 0.00

General Fund Balance:	\$ 2,337,161.00
Governmental Activities Long-Term Debt (see Instructions):	\$ 14,255.00

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (Reported deviations).

CPA (First Name)	Jerry	Last Name	Bernhardt	Ten Digit License Number	1101008281
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CPA Firm Name	Anderson, Tuckey, Bernhardt	Unit's Street Address	1733 Mertz	City	Caro
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TUSCOLA COUNTY ROAD COMMISSION
Caro, Michigan

Report on Financial Statements
(with required supplementary and
additional information)
December 31, 2007

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ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.

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April 20, 2008

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Tuscola County Road Commission
Caro, Michigan 48723

We have audited the accompanying financial statements of the Tuscola County Road Commission, Caro, Michigan, a component unit of the County of Tuscola, as of and for the year ended December 31, 2007, as listed in the Table of Contents. These financial statements are the responsibility of the Tuscola County Road Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with United States generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the component unit financial statements referred to above present fairly, in all material respects, the financial position of the Tuscola County Road Commission, Caro, Michigan, as of December 31, 2007, and for the year then ended in conformity with generally accepted accounting principles.

The management's discussion and analysis on pages I through VII and budgetary comparison information on pages 18 & 19 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Tuscola County Road Commission's basic financial statements. The additional information on pages 20 through 26 is presented for the purposes of additional information and has been subjected to the auditing procedures

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**TUSCOLA COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION & ANALYSIS
Year Ending December 31, 2007**

Using this Annual Report

The Tuscola County Road Commission's discussion and analysis is designed to: (a) assist the reader in focusing on significant financial issues; (b) provide an overview of the Road Commission's financial activity; (c) identify changes in the Road Commission's financial position (its ability to address the next and subsequent year challenges); (d) identify any material deviations from the approved budget; and (e) identify any issues or concerns.

Reporting the Road Commission as a Whole

The Statement of Net Assets and the Statement of Activities report information about the Road Commission as a whole and about its activities in a way that helps answer the question whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the year's revenues and expenses are taken into account regardless of when cash is received or paid.

The two statements mentioned above, report the Road Commission's net assets and the changes in them. The reader can think of the Road Commission's net assets (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases or decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating.

Reporting the Road Commission's Major Fund

Our analysis of the Road Commission's major fund begins on page 2. The fund financial statements begin on page 3 and provide detailed information about the major fund. The Road Commission currently has only one fund, the General Operations Fund, in which all of the Road Commission's activities are accounted. The General Operations Fund is a governmental fund type.

Governmental funds focus on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services.

We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and the governmental fund in a reconciliation following the fund financial statements.

The Road Commission as a Whole

The Road Commission's net assets increased by 7.28% from \$69,271,127 to \$74,312,435 for the year ended December 31, 2007. The net assets and change in net assets are summarized below.

Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements, increased \$4,503,348. Restricted net assets, those restricted mainly for Act 51 purposes, increased \$537,960. The primary reason for the increase in unrestricted net assets was an increase of the Road Commission's Capital Assets by 6.46% for the year 2007 compared to 2006.

Net assets as of year ended December 31, 2007 follows:

	2007	2006	Variance	%
Current and Other Assets	\$ 5,399,655	\$ 4,986,822	\$ 412,833	8%
Capital Assets	70,426,806	66,154,196	4,272,610	6%
Total Assets	\$ 75,826,461	\$ 71,141,018	\$ 4,685,443	7%
Long-Term Debt Outstanding	-	50,000	(50,000)	-100%
Other Liabilities	1,514,026	1,819,891	(305,865)	-17%
Total Liabilities	1,514,026	1,869,891	(355,865)	-19%
Net Assets				
Invested in Capital Assets				
Net of Debt	70,426,806	66,154,196	4,272,610	6%
Restricted	1,630,506	1,092,546	537,960	49%
Unrestricted	2,255,123	2,024,385	230,738	11%
Total Net Assets	74,312,435	69,271,127	5,041,308	7%
Total Net Assets & Liabilities	\$ 75,826,461	\$ 71,141,018	\$ 4,685,443	

A summary of changes in net assets for the year ended December 31, 2007 follows:

	Governmental Activities 2007	Governmental Activities 2006	Favorable (Unfavorable) Variance	Variance %
Program Revenue:				
Federal Grants	\$2,485,993	\$ 2,074,286	\$ 411,707	20%
State Grants	7,715,574	6,947,444	768,130	11%
Contributions From Local Units	1,909,910	2,513,288	(603,378)	-24%
Investment Earnings	81,332	42,801	38,531	90%
General Revenue:				
Taxes	1,523,705	1,487,517	36,188	2%
Miscellaneous	41,709	4,594	37,115	808%
Salvage Sales	8,854	9,396	(542)	-6%
Gain on Equipment Disposal	3,795	60,105	(56,310)	-94%
TOTAL REVENUES	\$13,770,872	13,139,431	631,441	5%
Program Expenses:				
Primary Road Maintenance	1,071,477	870,178	201,299	23%
Local Road Maintenance	2,539,825	2,295,932	243,893	11%
State Trunkline Expense	1,484,914	1,007,555	477,359	47%
Net Equipment Expense	3,251,703	3,414,385	(162,682)	-5%
Net Administrative Expense	381,645	573,540	(191,895)	-33%
TOTAL EXPENDITURES	8,729,564	8,161,590	567,974	7%
Increase (Decrease) in Net Assets	\$5,041,308	\$ 4,977,841	\$ 63,467	1%

The Road Commission's Fund

The Road Commission's General Operations Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county which are earmarked by law for road and highway purposes.

For the year ended December 31, 2007, the fund balance of the General Operations Fund increased \$655,165 as compared to an increase of \$140,050 in the fund balance for the year ended December 31, 2006. Total revenues were \$13,707,820, an increase of \$668,337 as compared to last year. This change in revenues resulted mainly from an increase in Federal Aid funded projects.

Total expenditures were \$13,052,654, an increase of \$153,221 as compared to last year. Increased expenses included expenses associated with Federal Aid funded projects.

Budgetary Highlights

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission Board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was completed.

The final revenue budget for 2007 was lower than the original budget by \$1,164,100. This was due to the Chambers Road Bridge Federal Aid Project that was first anticipated to be funded in 2007. The funding for this project should be completed in 2008.

Road Commission final expenditures budget for 2007 was also lower than the original budget by \$1,727,000. This was due to the lower expense as related to the Chambers Road Bridge Federal Aid Project originally planned for 2007. As with the revenue, the expenses should be incurred during year 2008. Also, heavy maintenance conducted on the local road system decreased in 2007.

	2007 Original Budget	2007 Final Budget
Revenues:		
Motor Vehicle Highway Funds	\$5,600,000	\$5,500,000
State Trunkline Revenue	1,200,000	1,500,000
Federal/State Funds:		
Snow Emergency Funds	-	-
Primary Roads	1,312,500	1,287,500
Local Roads	1,600,000	1,507,000
Primary Roads Bridges	1,092,500	-
Local Roads Bridges	361,000	525,000
County Raised Funds:		
Primary Road Millage	920,000	950,000
Local Road Bridge Millage	460,000	480,000
Township Contributions	2,500,000	2,000,000
Other Contributions	88,000	60,400
Other Revenues:		
Interest Earned	30,000	40,000
Equipment Rentals	2,200,000	2,300,000
Gain (Loss) on Disposal of Equipment	25,300	25,300
Depreciation & Depletion Credits	400,000	450,000
Equipment Retirements	10,000	10,000
Salvage Sales	10,000	10,000
TOTAL REVENUES	17,809,300	16,645,200
Expenditures:		
Primary Roads Construction	-	-
Primary Roads Heavy Maintenance	2,565,000	2,624,000
Primary Roads Routine Maintenance	1,200,000	1,063,000
Local Roads Construction	-	-
Local Roads Heavy Maintenance	4,800,000	4,200,000
Local Roads Routine Maintenance	2,400,000	2,319,000
Primary Structures Heavy Maintenance	1,420,000	211,000
Primary Structures Routine Maintenance	10,000	10,000
Local Structures Heavy Maintenance	1,168,000	1,039,000
Local Structures Routine Maintenance	30,000	30,000
State Trunkline Expense	1,200,000	1,500,000
Equipment Expense-Direct	1,200,000	1,300,000
Equipment Expense-Indirect	600,000	550,000
Equipment Expense-Operating	400,000	450,000
Administrative Expense	630,000	600,000
Capital Outlay	206,150	206,150
MDOT - Audit Adjustment	-	-
TOTAL EXPENDITURES	17,829,150	16,102,150

Capital Assets

As of December 31, 2007, the Road Commission had \$112,704,110 invested in capital assets as follows:

Capital Assets Not Being Depreciated:	2007	2006	Variance
Land and Land Improvements	\$28,461,214	25,771,355	2,689,859
Other Capital Assets:			
Depletable Assets	282,717	282,717	-
Buildings	2,003,650	2,308,183	(304,533)
Bridges	20,758,417	19,452,389	1,306,028
Roads	56,231,120	52,220,360	4,010,760
Signals & Guardrails	347,340	317,406	29,934
Road Equipment	4,173,335	4,167,924	5,411
Shop Equipment	86,855	145,559	(58,704)
Engineers Equipment	30,747	56,775	(26,028)
Office Equipment and Furniture	328,715	344,835	(16,120)
Total Capital Assets at Historic Cost	112,704,110	105,067,503	7,636,607
Total Accumulated Depreciation	42,277,304	38,913,307	3,363,997

Current year's major additions included the following:

Trucks/Equipment	\$ (95,441)
Buildings	(304,533)
Roads	4,010,760
Bridges	1,306,028
Land improvements	2,689,859
Signals & guardrails	29,934

Debt

The Road Commission currently experiences a debt free status. In 2004, a gravel pit was purchased for approximately \$200,000. The final installment purchase agreement was executed in 2007 leaving a current balance of \$0.

Economic Factors and Next Year's Budget

The Board of County Road Commissioners considered many factors when setting the fiscal year 2008 budget. One of the factors was Federal Aid funding. Federal Aid funding will include such projects as 4.03 miles of Dodge Road, 1.31 miles of Hurds Corner Road, and the Chambers Road Bridge.

The Board realizes, and the reader should understand, that there are not sufficient funds available to repair and/or rebuild every road in Tuscola County's transportation system. Therefore, the Board attempts to spend the public's money wisely and equitably, and in the best interest of the motoring public and the citizens of Tuscola County.

Contacting the Road Commission's Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show the Road Commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Tuscola County Road Commission administrative offices at (989) 673-2128.

BASIC FINANCIAL STATEMENTS

**TUSCOLA COUNTY ROAD COMMISSION
STATEMENT OF NET ASSETS**

	GOVERNMENTAL ACTIVITIES	
	DECEMBER 31,	
	2007	2006
<u>ASSETS</u>		
Cash & cash equivalents	\$ 25,773	\$ 139,696
Accounts receivable	1,779,941	1,784,532
Inventory	308,720	361,043
Prepaid insurance	104,983	99,377
Deferred expense	-	9,957
Capital assets	112,704,110	105,067,503
Less accumulated depreciation	(42,277,304)	(38,913,307)
Restricted assets:		
Cash & cash equivalents	1,630,506	1,092,546
Taxes receivable	1,562,723	1,499,671
TOTAL ASSETS	<u>\$ 75,839,452</u>	<u>\$ 71,141,018</u>
<u>LIABILITIES</u>		
Current Liabilities:		
Accounts payable	\$ 1,132,107	\$ 1,474,060
Accrued liabilities	106,051	84,426
Deferred expense	12,992	-
Township advances	14,105	27,882
Advance - State of Michigan	247,508	218,787
Land contract payable	-	50,000
Noncurrent Liabilities:		
Land contract payable	-	-
Accrued sick pay	14,255	14,736
Total Liabilities	<u>1,527,018</u>	<u>1,869,891</u>
<u>NET ASSETS</u>		
Investment in capital fixed assets		
net of related debt	70,426,806	66,154,196
Designated for bridge/road construction	1,630,506	1,092,546
Undesignated	2,255,123	2,024,385
Total Net Assets	<u>74,312,435</u>	<u>69,271,127</u>
TOTAL LIABILITIES & NET ASSETS	<u>\$ 75,839,453</u>	<u>\$ 71,141,018</u>

The accompanying notes are an integral part of the financial statements.

TUSCOLA COUNTY ROAD COMMISSION
STATEMENT OF ACTIVITIES

	DECEMBER 31,	
	2007	2006
Program Expenses		
Primary Road Maintenance	\$ 1,071,476	\$ 870,178
Local Road Maintenance	2,539,825	2,295,932
State Trunkline	1,484,914	1,007,555
Net Equipment Expense	3,251,704	3,414,385
Net Administrative Expense	<u>381,645</u>	<u>573,540</u>
Total Program Expenses	<u>8,729,564</u>	<u>8,161,590</u>
Program Revenue		
Federal Grants	2,491,185	2,074,286
State Grants	7,710,381	6,947,444
Contributions From Local Units	1,909,910	2,513,288
Investment Earnings	<u>81,332</u>	<u>42,801</u>
Total Program Revenue	<u>12,192,809</u>	<u>11,577,819</u>
Net Program Revenue	<u>3,463,245</u>	<u>3,416,229</u>
General Revenue		
Property Taxes	1,523,705	1,487,517
Miscellaneous	41,709	4,594
Salvage Sales	8,854	9,396
Gain on Equipment Disposal	<u>3,795</u>	<u>60,105</u>
Total General Revenue	<u>1,578,063</u>	<u>1,561,612</u>
Change in Net Assets	5,041,308	4,977,841
Net Assets Beginning of Year	<u>69,271,127</u>	<u>64,293,286</u>
Net Assets End of Year	<u><u>\$ 74,312,435</u></u>	<u><u>\$ 69,271,127</u></u>

The accompanying notes are an integral part of the financial statements.

**TUSCOLA COUNTY ROAD COMMISSION
BALANCE SHEET**

	GOVERNMENTAL FUND TYPE	
	GENERAL OPERATING FUND	
	DECEMBER 31,	
	2007	2006
<u>ASSETS</u>		
Cash & cash equivalents	\$ 25,773	\$ 139,696
Accounts receivable	1,779,941	1,784,532
Inventory	308,720	361,043
Prepaid Insurance	104,983	99,377
Deferred expense		9,957
Restricted assets:		
Cash & cash equivalents	1,630,506	1,092,546
Taxes receivable	1,562,723	1,499,671
TOTAL ASSETS	\$ 5,412,646	\$ 4,986,822
<u>LIABILITIES & FUND EQUITY</u>		
Liabilities:		
Accounts payable	\$ 1,132,107	\$ 1,474,060
Accrued liabilities	106,051	84,426
Deferred expense	12,992	
Township advances	14,105	27,882
Advance - State of Michigan	247,508	218,787
Payable from restricted assets:		
Deferred revenue	1,562,723	1,499,671
Total Liabilities	3,075,485	3,304,826
Fund Equity:		
Investment in general fixed assets		
Fund balance:		
Designated for bridge/road construction	1,630,506	1,092,546
Undesignated	706,655	589,540
Total Fund Equity	2,337,161	1,681,996
TOTAL LIABILITIES AND FUND EQUITY	\$ 5,412,646	\$ 4,986,822

The accompanying notes are an integral part of the financial statements.

**TUSCOLA COUNTY ROAD COMMISSION
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS**

	DECEMBER 31,	
	2007	2006
Total Fund Balances - Governmental Funds	\$ 2,337,161	\$ 1,681,996
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the funds		
The cost of the capital assets is:	112,704,110	105,067,503
Accumulated depreciation is:	(42,277,304)	(38,913,307)
Long term liabilities are not due and payable in the current period and are not reported in the funds		
Deferred revenue	1,562,723	1,499,671
Land contract payable		(50,000)
Sick pay payable	(14,255)	(14,736)
Net Assets of Governmental Activities	\$ 74,312,435	\$ 69,271,127

The accompanying notes are an integral part of the financial statements.

TUSCOLA COUNTY ROAD COMMISSION
COMBINED STATEMENT OF REVENUE, EXPENDITURES,
AND CHANGE IN FUND BALANCE
GENERAL OPERATING FUND

	GENERAL OPERATING FUND	
	YEAR ENDED DECEMBER 31,	
	2007	2006
REVENUE:		
State Funds:		
Motor vehicle highway funds	\$ 5,582,518	\$ 5,617,302
State trunkline revenue	1,484,914	1,007,555
State aid	642,950	322,587
Federal funds:		
Secondary	2,491,185	2,074,286
County raised funds:		
Township contributions	1,909,910	2,513,288
Other contributions	-	-
Property taxes	1,460,653	1,387,569
Other revenue:		
Miscellaneous	41,709	4,594
Interest earned	81,332	42,801
Salvage sales	8,854	9,396
Gain (loss) Equipment Disposal	3,795	60,105
TOTAL REVENUE	13,707,820	13,039,483
EXPENDITURES:		
Primary heavy maintenance	2,408,247	3,200,044
Primary routine maintenance	1,059,862	872,416
Local heavy maintenance	4,322,306	4,029,212
Local routine maintenance	2,505,087	2,289,888
Primary structures heavy maintenance	209,844	144,282
Primary structures routine maintenance	11,615	762
Local structures heavy maintenance	1,096,184	722,410
Local structures routine maintenance	34,738	3,044
State trunkline maintenance and non-maintenance	1,484,914	1,007,555
Equipment expense - net	(123,892)	308,464
Administrative expense	382,126	574,016
Capital outlay - net	(338,376)	(252,660)
TOTAL EXPENDITURES	13,052,654	12,899,433
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	655,166	140,050
FUND BALANCE - JANUARY 1	1,681,995	1,541,946
FUND BALANCE - DECEMBER 31	\$ 2,337,161	\$ 1,681,996

The accompanying notes are an integral part of the financial statements.

**TUSCOLA COUNTY ROAD COMMISSION
RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES**

	DECEMBER 31,	
	2007	2008
Total net change in fund balances--governmental funds	\$ 655,166	\$ 140,050
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of these assets are allocated over their useful lives as depreciation. This is the amount by which capital outlays exceeded depreciation in the current period. Equipment retirement is recorded as an expenditure credit in governmental funds, but not recorded as an expense in the statement of activities:		
Equipment retirements	(102,029)	(10,965)
Depreciation	(3,788,082)	(3,634,972)
Infrastructure	8,036,581	8,095,948
Capital outlay	126,139	237,356
Loan proceeds provide current financial resources to governmental funds, but entering into loan agreements increases long-term liabilities in the statement of Net Assets. Repayment on notes payable is an expenditure in governmental funds, but reduces the long-term liabilities in the statement of Net Assets		
	50,000	50,000
Net increase in accrued revenue - Property Tax		
End of Year	1,562,723	1,499,671
Beginning of Year	(1,499,671)	(1,399,723)
Sick pay is reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds:		
Sick pay payable at the beginning of the year	14,736	15,212
Sick pay payable at the end of the year	(14,255)	(14,736)
Change in net assets of governmental activities	\$ 5,041,308	\$ 4,977,841

The accompanying notes are an integral part of the financial statements.

**TUSCOLA COUNTY ROAD COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Tuscola County Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Tuscola County Road Commission.

Effective January 1, 2003, the Road Commission implemented the provisions of GASB Statement No. 34 (GASB 34), *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Certain significant changes in the statements include the following:

A management Discussion and Analysis (MD&A) section providing an analysis of the Road Commission's overall financial position and results of operations has been included in the financial statements.

Financial statements prepared using full accrual accounting for all of the Road Commission's activities, including infrastructure (roads, bridges, etc.).

A change in the fund financial statements to focus on major funds.

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements).

REPORTING ENTITY:

The Tuscola County Road Commission, established pursuant to the County Road Law (MCL 224.1), is governed by a 3 member Board of County Road Commissioners. The Road Commission may not issue debt without the County's approval and property tax levies are subject to County Board of Commissioners' approval.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14 "The Financial Reporting Entity" for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Tuscola County Road Commission, a discretely presented component unit of Tuscola County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the County, which are earmarked by law for street and highway purposes.

The Board of County Road Commissioners is responsible for the administration of the Road Commission Operating Fund.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the activities of the Tuscola County Road Commission. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets, net of related debt, or restricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment.

**TUSCOLA COUNTY ROAD COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued):

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS, (Continued):

Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for the Operating Fund (governmental fund). The Operating Fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. Major individual governmental funds are reported as separate columns in the fund financial statements.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

CASH, CASH EQUIVALENTS AND INVESTMENTS:

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are recorded at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on national exchanges are valued at the last reported sales price. Investments that do not have an established market are reported at estimated fair value. The Tuscola County Road Commission had no investments at December 31, 2007.

TUSCOLA COUNTY ROAD COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 1 –SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued):

PROPERTY TAXES:

The Road Commission portion of the County property tax is levied each December 1, on the taxable value of property located in the County as of the preceding December 31. Assessed values are established annually by the County and are equalized by the State at 50% of approximated current market value. Real and personal property in Tuscola County for the 2006 levy had a State equalized valuation of \$1,759,889,837 and a taxable value of \$1,335,231,117.

In the government-wide financial statements, the property taxes receivable is recorded as revenue when the tax is levied in the current year.

Although the county's 2007 ad valorem tax is levied and collectible on December 1, 2007, it is the Road Commission's policy to recognize revenues from the current tax levy in the subsequent year. The proceeds of this levy are budgeted and made available for the financing of the Road Commission's operations in the governmental fund financial statements in the year collected. The Road Commission's property tax rates for the 2006 levy were .4731 mills for voted bridges and .9510 mills for voted Primary Road.

INVENTORIES:

Inventories consisting of equipment parts and materials of \$122,102 and road materials of \$186,618 are valued at the lower of cost or market, determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations used.

PREPAID EXPENSES:

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expense in both the government-wide and fund financial statements.

CAPITAL ASSETS:

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges and similar items), are reported in the operating fund in the government-wide financial statements. Capital assets are defined by Tuscola County Road Commission as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at estimated fair market value at the date of donation.

GASB 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending after June 30, 1980 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB 34. The Tuscola County Road Commission has capitalized the current year's infrastructure, as required by GASB 34, and has reported the infrastructure in the Statement of Net Assets.

**TUSCOLA COUNTY ROAD COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007**

NOTE 1 –SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued):

DEPRECIATION:

Depreciation expense amounted to \$3,724,220 and \$3,644,905 for the years ended December 31, 2007 and 2006. Depreciation is computed using the State Transportation Department Guidelines (Sum-of-the-years-digits) for road equipment and the straight-line method for all other assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Building	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Department	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure – Roads	8 to 30 years
Infrastructure – Bridges	12 to 50 years

COMPENSATED ABSENCES (SICK & VACATION BENEFITS):

Under the terms of the 2002 contract between the Tuscola County Division of the Michigan County Road Commission Employee Association, a sickness and accident insurance program funded through a third-party insurance carrier has been established. The program will provide a weekly benefit equal to 70% of the employee's regular weekly earnings for a maximum period of fifty-two weeks. Employees, who, as of August 1, 1990, have accumulated unused sick leave hours earned pursuant to the employer's sick leave plan that existed prior to this agreement, shall have said hours placed into a frozen sick leave bank.

If an employee retires pursuant to the retirement program or dies, the employee or his estate is entitled to payment of fifty percent of his accumulated unused sick leave bank at the rate of pay the employee was earning on December 31, 1989. If an employee is discharged, terminated or quits, he shall not be entitled to payment of any portion of his accumulated sick leave hours.

Hourly employees may accumulate up to 160 hours of paid vacation after which credits are discontinued until the paid vacation accumulation is reduced.

Salaried employees may carry over from year to year a maximum of five unused vacation days.

Accumulated unpaid sick and vacation pay at December 31, 2007, is recorded in the financial statements of the Road Commission as follows:

- A current year expenditure of the Operating Fund if paid out of expendable available financial resources;
- The current and long-term liability is reported on the government-wide financial statements.

ESTIMATES:

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**TUSCOLA COUNTY ROAD COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007**

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

BUDGETARY PROCEDURES:

Budgetary procedures are established pursuant to Act 621, PA 1978, as amended, (MCL 141.421) which requires the County Board of Road Commissioners to approve a budget for the County Road Fund. The Road Commission follows these procedures in establishing the budgetary data reflected in the financial statements:

1. On or prior to December 31 of each year, a proposed budget is submitted to the County Board of Road Commissioners for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to January 1 the budget is legally enacted through passage of a resolution.
4. Any revisions of the budget must be approved by the County Board of Road Commissioners.
5. Formal budgetary integration is employed as a management control device during the year for the Operating Fund.
6. The budget is adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts are as originally adopted, or as amended by the County Board of Road Commissioners during the year. Individual amendments were not material in relation to the original appropriations that were amended.

**TUSCOLA COUNTY ROAD COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007**

NOTE 3 – CASH DEPOSITS AND INVESTMENTS:

Deposits are carried at cost. Deposits of the Road Commission are at banks in the name of the Tuscola County Treasurer. Michigan Compiled Laws, section 129.91, authorizes the County to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities, and other obligations of the United States, or an agency or instrumentality of the United States in which the principal and interest is fully guaranteed by the United States, including securities issued or guaranteed by the Government National Mortgage Association; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan; and commercial paper rated by two standard-rating agencies within the three highest classifications, which matures not more than 270 days after the date of purchase, and which involve no more than 50 percent of any one fund.

Michigan law prohibits security in the form of collateral, surety bonds, or other forms for the deposit of public money. Attorney General's Opinion No. 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan. The Road Commission's deposits and investments are in accordance with statutory authority.

The risk disclosures for the Road Commission's deposits and investments, as required by GASB Statement No. 3, are as follows:

	<u>CARRYING AMOUNT</u>		<u>FINANCIAL INSTITUTION BALANCES</u>
<u>DEPOSITS</u>	<u>UNRESTRICTED</u>	<u>RESTRICTED</u>	
Insured	\$25,774	\$ 300,000	\$ 325,774
Uninsured	-	1,330,506	1,330,506
Total Deposits	\$25,774	\$1,630,506	\$1,656,280

The Road Commission's insured deposits are insured by virtue of the Road Fund meeting certain specified criteria under FDIC regulations and obligations of the United States. The Road Commission had no investments at December 31, 2007.

NOTE 4 - ACCOUNTS RECEIVABLE:

Accounts receivable consist of the following:

	<u>December 31, 2007</u>	<u>December 31, 2006</u>
Motor vehicle highway funds	\$1,008,729	\$ 967,078
Due on county road agreements	731,504	810,950
Sundry accounts	39,707	6,504
TOTAL	\$1,779,940	\$1,784,532

The receivables consist primarily of charges to other agencies for services and materials provided by the Road Commission.

NOTE 5 - DEFERRED EXPENSE - FEDERAL AID - SECONDARY (F.A.S.):

The deferred expense, F.A.S., represents progress payments made by the Road Commission to the State Highway Department on various road projects not completed at December 31, 2007. These amounts will be either refunded or charged to expense as the projects are completed.

TUSCOLA COUNTY ROAD COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 6 - CHANGES IN CAPITAL ASSETS:

A summary of changes in the recorded capital assets follows:

COST:

<u>CAPITAL ASSETS ACCOUNTS</u>	<u>BALANCE JANUARY 1, 2007</u>	<u>ADDITIONS</u>	<u>DEDUCTIONS</u>	<u>BALANCE DECEMBER 31, 2007</u>
Land & right of ways	\$ 294,218	-	-	\$ 294,218
Land improvements	25,477,137	\$2,689,859	-	28,166,996
Buildings	2,308,183	1,850	\$302,683	2,003,650
Bridges	19,452,389	1,306,028	-	20,758,417
Roads	52,220,360	4,010,760	-	56,231,120
Signals & guardrails	317,406	29,934	-	347,340
Equipment - roads	4,167,924	41,926	36,515	4,173,335
Equipment - shop	145,559	166	58,870	86,855
Equipment - heating	78,298	31,094	-	109,392
Equipment - radio	120,092	1,234	-	121,326
Equipment - office	140,346	4,307	63,896	80,757
Equipment - engineer	56,775	2,672	28,700	30,747
Depletable assets	282,717	-	-	282,717
Weighmaster equipment	6,099	11,141	-	17,240
TOTAL	<u>\$105,067,503</u>	<u>\$8,130,971</u>	<u>\$490,664</u>	<u>\$112,704,110</u>

ACCUMULATED DEPRECIATION:

<u>CAPITAL ASSETS ACCOUNTS</u>	<u>BALANCE JANUARY 1, 2007</u>	<u>ADDITIONS</u>	<u>DEDUCTIONS</u>	<u>BALANCE DECEMBER 31, 2007</u>
Buildings	\$ 1,222,304	\$ 5,905	\$216,309	\$ 1,011,900
Bridges	8,937,051	466,253	-	9,403,304
Roads	24,870,641	2,857,330	-	27,727,971
Signals & guardrails	47,296	22,159	-	69,455
Equipment - roads	3,289,296	352,215	-	3,641,511
Equipment - shop	134,626	2,611	57,484	79,753
Equipment - heating	78,298	5,073	-	83,371
Equipment - radio	110,242	3,186	-	113,428
Equipment - office	126,018	3,498	58,786	70,730
Equipment - engineers	48,010	2,920	27,644	23,286
Depletable assets	43,426	427	-	43,853
Weighmaster equipment	6,099	2,643	-	8,742
TOTAL	<u>\$38,913,307</u>	<u>\$3,724,220</u>	<u>\$360,223</u>	<u>\$42,277,304</u>
PLANT & EQUIPMENT EQUITY	<u>\$61,154,196</u>			<u>\$ 70,426,806</u>

**TUSCOLA COUNTY ROAD COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007**

NOTE 7 - ADVANCES - STATE OF MICHIGAN:

The balance of this account consists of the following:

	<u>December 31, 2007</u>	<u>December 31, 2006</u>
Non-interest bearing notes for the purchase of equipment to maintain State trunk lines. The loan does not have to be repaid as long as a maintenance contract exists.	\$247,508	\$132,588
Non-interest bearing working capital advances for State trunkline maintenance. There are no repayment provisions.	<u>-</u>	<u>86,199</u>
TOTAL	<u>\$247,508</u>	<u>\$218,787</u>

NOTE 8 - CHANGES IN GENERAL LONG-TERM DEBT:

The general long-term debt of the Road Commission may be summarized as follows:

	<u>BALANCE 12-31-06</u>	<u>INCREASE (DECREASE)</u>	<u>BALANCE 12-31-07</u>
Installment purchase agreement	\$50,000	\$(50,000)	\$ 0
Compensated absences	<u>14,736</u>	<u>(481)</u>	<u>14,255</u>
Total	<u>\$64,736</u>	<u>\$(50,481)</u>	<u>\$14,255</u>

NOTE 9 - DEFERRED COMPENSATION PLAN:

The Road Commission offers all its employees a deferred compensation plan created in accordance with Internal Revenue Code Sec. 457. The plan, available to salaried employees, permits them to defer a portion of their current salary until the employee's termination, retirement, death, or unforeseeable emergency.

Plan assets shall be held in a trust, annuity contract or custodial accounts for the exclusive benefit of participants and their beneficiaries. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the Tuscola County Road Commission's financial statements.

NOTE 10 - DEPLETION EXPENSES:

Depletion expense amounted to \$427 and \$1,498 for the years ended December 31, 2007 and 2006. Depletion was computed at a rate of four cents per cubic yard of gravel removed from various county gravel pits.

NOTE 11 - FUND BALANCE - DESIGNATED:

Fund balance is designated in the amount of \$1,630,506 and \$1,092,546 for the years ended December 31, 2007 and 2006. This represents the amount of bridge/road levy assets on hand at year-end. These assets must be used for the purpose of improvements to primary county roads and local road bridges.

TUSCOLA COUNTY ROAD COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 12 - OPERATING LEASES:

Commitments under various operating lease agreements for road equipment provide for minimum annual rental payments as follows:

2008	\$180,905
2009	93,550
2010	25,260
2011	25,260
2012	25,260
2013	<u>16,375</u>
TOTAL	<u>\$366,610</u>

There were no contingent rentals or sublease rentals associated with leases in effect at December 31, 2007.

NOTE 13 - PENSION PLANS:

Multiple-employer plan

The Road Commission's defined benefit pension plan provides retirement and disability benefits and death benefits to plan members and beneficiaries. The Road Commission participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917, or by calling (800) 767-6377.

The Road Commission is required to contribute at an actuarially determined rate. The current rate is 12.55% of annual covered payroll. Employees are currently not required to contribute to the Plan. The contribution requirements of the Road Commission are established by Act No. 427 of the Public Acts of 1984, as amended, and may be amended by the Road Commission.

For the year ended December 31, 2007, the Road Commission's annual pension cost of \$93,840 for MERS was equal to the Road Commission's required and actual contributions. The required contribution was determined as part of the December 31, 2006 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the entry age normal cost method basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The Road Commission's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period a December 31, 2006, the date of the latest actuarial valuation, was 30 years.

**TUSCOLA COUNTY ROAD COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007**

NOTE 13 - PENSION PLANS, (Continued):

Single-employer plan

The Road Commission maintains single-employer defined benefit pension plan that is administered by the Massachusetts Mutual Life Insurance Company (Massachusetts Mutual Plan). The plan provides retirement, disability and death benefits to plan members and beneficiaries. Cost-of-living adjustments and other plan changes are provided to members and beneficiaries at the discretion of the Board of County Road Commissioners. The Massachusetts Mutual Plan issues a publicly available financial report that includes financial statements and required supplementary information and that report may be obtained by writing to the Tuscola County Road Commission, 1733 Meriz Road, Caro, MI 48723.

The Road Commission is required to contribute at an actuarially determined rate. The current rate is \$.03 per hour for employees and \$.81 per hour for the employer. The contribution requirements of the Road Commission and plan members are established and may be amended by the Board of County Road Commissioners.

For the year ended December 31, 2007, the Road Commission's annual pension cost of \$13,772 for the Massachusetts Mutual Plan was not equal to the Road Commission's recommended contribution of \$50,962. The required contribution was determined as part of the April 1, 2006, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 5%.

The actuarial value of Massachusetts Mutual Plan assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The unfunded actuarial accrued liability at April 1, 2007 is \$451,044. The Road Commission contributed \$50,000 in June of 2007 to reduce this deficit.

Three-Year Trend Information

<u>YEAR ENDED</u>	<u>ANNUAL PENSION COST (APC)</u>	<u>PERCENTAGE OF APC CONTRIBUTED</u>	<u>NET PENSION OBLIGATION</u>
A) MERS Plan			
December 31, 2005	\$108,108	100%	NONE
December 31, 2006	97,226	100%	NONE
December 31, 2007	93,840	100%	NONE
B) Mass. Mutual Plan			
March 31, 2005	45,621	32%	\$30,870
March 31, 2006	43,253	33%	28,690
March 31, 2007	50,962	27%	37,190

TUSCOLA COUNTY ROAD COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 13 - PENSION PLANS, (Continued):

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
C) MERS Plan						
12/31/03	\$1,901,863	\$2,758,692	(\$856,829)	68.9%	\$ 767,401	111.6%
12/31/04	2,105,045	3,068,059	(963,014)	68.6%	788,509	122.1%
12/31/05	2,195,640	3,187,163	(991,523)	68.9%	678,624	146.1%
12/31/06	2,335,396	3,370,443	(1,035,047)	69.3%	747,723	138.4%
D) Mass. Mutual Plan						
4/1/04	\$ 141,138	\$ 433,863	(\$303,970)	32.5%	\$2,310,579	13.2%
4/1/05	157,793	464,021	(333,339)	34.0%	2,487,412	13.4%
4/1/06	85,412	502,454	(417,042)	17.0%	2,328,064	17.9%
4/1/07	53,979	505,023	(451,044)	10.7%	2,315,427	19.5%

NOTE 14 – RISK MANAGEMENT:

The Road Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The Road Commission has joined together with other Road Commissions to form the Michigan County Road Commission Self-Insurance Pool, a public entity risk pool currently operating as a common risk management and insurance program for liability insurance. The government pays an annual premium to the pool for its general insurance coverage. The agreement for formation of the Michigan County Road Commission Self-Insurance Pool provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for large claims.

The government continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The Michigan County Road Commission Self-Insurance Pool publishes its own financial report annually, which can be obtained from Michigan County Road Commission Self-Insurance Pool, P. O. Box 14203, Lansing, MI 48901.

NOTE 15 – OTHER POST EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 14, the Road Commission provides post employment health care benefits for life to all employees who retire from the Road Commission with 85 points (years of service plus employee age). After August 15, 2002 employees who retire with the same 85 point system will received health insurance for only 3 years. The expense the Road Commission incurred, which is funded currently, was approximately \$477,854 for the year ending December 31, 2007 and \$369,449 for the year ending December 31, 2006.

The Government Accounting Standards Board has recently released Statement Number 45, *Financial Reporting Post Employment Benefit Plans Other Than Pension Plans*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" post employment benefits (other than pensions). The new rules will cause government-wide financial statements to recognize the cost of providing health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ended December 31, 2008.

REQUIRED SUPPLEMENTAL INFORMATION

TUSCOLA COUNTY ROAD COMMISSION
STATEMENT OF REVENUES AND OTHER FINANCING
SOURCES - BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2007

	GENERAL FUND			VARIANCE FAVORABLE (UNFAVORABLE)
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	
REVENUES				
Federal funds:				
Secondary	\$ 4,005,000	\$ 2,794,500	\$ 2,491,185	\$ (303,315)
State Funds:				
State trunkline revenue	1,200,000	1,500,000	1,484,914	(15,086)
Motor vehicle highway funds	5,600,000	5,500,000	5,582,518	82,518
State aid	361,000	525,000	642,950	117,950
County raised funds:				
Township contributions	2,588,000	2,060,400	1,909,910	(150,490)
Property taxes	1,380,000	1,430,000	1,460,653	30,653
Interest earned	30,000	40,000	81,332	41,332
Salvage sales	10,000	10,000	8,854	(1,146)
Other			41,709	41,709
Gain (loss) Equipment Disposal	25,300	25,300	3,795	(21,505)
TOTAL REVENUES	\$ 15,199,300	\$ 13,885,200	\$ 13,707,820	\$ (177,380)

The accompanying notes are an integral part of the financial statements.

TUSCOLA COUNTY ROAD COMMISSION
STATEMENT OF EXPENDITURES AND OTHER FINANCING
USES - BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2007

	GENERAL FUND			VARIANCE FAVORABLE (UNFAVORABLE)
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	
EXPENDITURES:				
Primary heavy maintenance	\$ 2,565,000	\$ 2,624,000	\$ 2,408,247	\$ 215,753
Primary routine maintenance	1,200,000	1,063,000	1,059,862	3,138
Local heavy maintenance	4,800,000	4,200,000	4,322,306	(122,306)
Local routine maintenance	2,400,000	2,319,000	2,505,087	(186,087)
Primary structures heavy maintenance	1,420,000	211,000	209,844	1,156
Primary structures routine maintenance	10,000	10,000	11,615	(1,615)
Local structures heavy maintenance	1,168,000	1,039,000	1,096,184	(57,184)
Local structures routine maintenance	30,000	30,000	34,738	(4,738)
State trunkline maintenance and non-maintenance	1,200,000	1,500,000	1,484,914	15,086
Equipment expense - net	-	-	(123,892)	123,892
Administrative expense	630,000	600,000	382,126	217,874
Capital outlay - net	(203,850)	(253,850)	(338,376)	84,526
TOTAL EXPENDITURES	\$ 15,219,150	\$ 13,342,150	\$ 13,052,654	\$ 289,496

The accompanying notes are an integral part of the financial statements.

ADDITIONAL INFORMATION

**TUSCOLA COUNTY ROAD COMMISSION
ANALYSIS OF CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>PRIMARY ROAD FUND</u>	<u>LOCAL ROAD FUND</u>	<u>COUNTY ROAD COMMISSION</u>	<u>TOTALS</u>
Total Revenues	\$ 5,254,834	\$ 6,947,480	\$ 1,505,706	\$ 13,707,820
Total Expenditures	<u>3,450,216</u>	<u>8,142,141</u>	<u>1,460,297</u>	<u>13,052,654</u>
Excess of Revenues Over (Under) Expenditures	<u>1,804,418</u>	<u>(1,194,662)</u>	<u>45,410</u>	<u>655,166</u>
Other Financing Sources (Uses):				
Operating Transfers In		1,194,662		1,194,662
Operating Transfers Out	<u>(895,349)</u>		<u>(299,312)</u>	<u>(1,194,661)</u>
Total Other Financing Sources (Uses)	<u>(895,349)</u>	<u>1,194,662</u>	<u>(299,312)</u>	<u>1</u>
Excess of Revenues and Other Sources Over (Under) Expenditures & Other Uses	909,069	-	(253,902)	655,167
Fund Balance - January 1, 2007	<u>1,289,566</u>	<u>-</u>	<u>392,429</u>	<u>1,681,995</u>
Fund Balance - December 31, 2007	<u>\$ 2,198,635</u>	<u>\$ -</u>	<u>\$ 138,527</u>	<u>\$ 2,337,162</u>

See the accompanying notes.

TUSCOLA COUNTY ROAD COMMISSION
ANALYSIS OF REVENUES AND OTHER FINANCING SOURCES
FOR THE YEAR ENDED DECEMBER 31, 2007

	<u>PRIMARY ROAD FUND</u>	<u>LOCAL ROAD FUND</u>	<u>COUNTY ROAD COMMISSION</u>	<u>TOTALS</u>
Property taxes	\$ 975,954	\$ 484,699		\$ 1,460,653
State Aid:				
Michigan Trans. Fund:				
Engineering	5,387	4,613		10,000
Urban Road	17,425	11,995		29,420
Allocation	2,984,500	2,558,598		5,543,098
Federal Aid:				
Surface Tran. Program	1,122,635			1,122,635
D Funds - Federal	90,180	1,512,182		1,602,362
Bridge		409,138		409,138
Other Guardrail				-
Charges for services:				
State trunkline maintenance			\$ 1,484,914	1,484,914
Contributions:				
Township		1,909,910		1,909,910
Other Revenue:				
Miscellaneous	36,400	5,192	117	41,709
Salvage sales			8,854	8,854
Gain (loss) Equip. Disp.	3,795		0	3,795
Interest earned	18,358	51,153	11,821	81,332
Total Revenue	<u>\$ 5,254,634</u>	<u>\$ 6,947,480</u>	<u>\$ 1,505,706</u>	<u>\$ 13,707,820</u>

See the accompanying notes.

TUSCOLA COUNTY ROAD COMMISSION
ANALYSIS OF EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2007

	<u>PRIMARY ROAD FUND</u>	<u>LOCAL ROAD FUND</u>	<u>COUNTY ROAD COMMISSION</u>	<u>TOTALS</u>
Primary road:				
Heavy maintenance	\$ 2,408,247			\$ 2,408,247
Maintenance	1,059,862			1,059,862
Local road:				
Heavy maintenance		\$ 4,322,306		4,322,306
Maintenance		2,505,087		2,505,087
Primary road structures:				
Heavy maintenance	209,844			209,844
Maintenance	11,615			11,615
Local road structures:				
Heavy maintenance		1,096,184		1,096,184
Maintenance		34,738		34,738
State trunkline maintenance			\$ 1,484,914	1,484,914
Equipment expense - net	(22,016)	(77,259)	(24,617)	(123,892)
Administrative expense - net	121,041	261,085		382,126
Capital outlay - net	<u>(338,376)</u>	<u> </u>	<u> </u>	<u>(338,376)</u>
TOTAL EXPENDITURES	<u><u>\$ 3,450,216</u></u>	<u><u>\$ 8,142,141</u></u>	<u><u>\$ 1,460,297</u></u>	<u><u>\$ 13,052,654</u></u>

See the accompanying notes.

**TUSCOLA COUNTY ROAD COMMISSION
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
FOR THE YEAR ENDED DECEMBER 31, 2007**

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	FEDERAL ITEM CODE	PROGRAM AWARD AMOUNT	REVENUE RECOGNIZED	PROGRAM EXPENDITURES
U.S DEPARTMENT OF TRANSPORTATION					
Pass Through Michigan Department of Transportation:					
Highway Research, Planning and Construction	20.205				
Federal Aid Secondary:					
VanBuren Road Bridge		86286A	\$ 402,533	\$ 402,533	\$ 402,533
Saginaw Road		87199A	609,874	22,354	22,354
Saginaw Road		82885A	820,044	402,533	402,533
Saginaw Road Bike Path		89097A	520,501	474,419	474,419
Hurds Corner Road		78435A	284,839	284,839	284,839
Dodge Road		77754A	642,771	642,171	642,171
Dodge Road		78434A	221,861	221,861	221,861
Other				35,283	35,283
				<u>\$ 2,485,993</u>	<u>\$ 2,485,993</u>
TOTAL DEPARTMENT OF TRANSPORTATION					

TUSCOLA COUNTY ROAD COMMISSION
NOTES TO SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
FOR THE YEAR ENDED DECEMBER 31, 2007

1. The Road Commission's financial statements report \$2,485,993 of federal aid, of which all is administered by the Michigan Department of Transportation; the Road Commission has no control over these expenditures, nor does it have any administrative or other responsibilities for compliance with grant requirements. Therefore, it does not consider these to represent federal assistance to the Road Commission. Therefore, no single audit was undertaken by the Road Commission
2. Federal aid revenues recognized are based on Federal, State and Local participation in project contract payments as follows:

<u>PERCENTAGES</u>			
<u>PROGRAM TITLE</u>	<u>FEDERAL SHARE</u>	<u>STATE SHARE</u>	<u>LOCAL SHARE</u>
Secondary Road (A)	66.00	14.00	20.00
Primary Road (B)	80.00		20.00
Secondary Road (C)	62.00	18.00	20.00
Critical Bridge (D)	80.00	15.00	5.00
Bike Path (E)	80.00		20.00

3. Program expenditures represent the total actual 2007 Federal Financial Assistance Program expenditures eligible for Federal participation.
4. The Road Commission's financial statements report \$2,491,185 of federal aid, of which all is administered by the Michigan Department of Transportation; the Road Commission has no control over these expenditures nor does it have any administrative or other responsibilities for compliance with grant requirements. Therefore, it does not consider these to represent federal assistance to the Road Commission.



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

April 20, 2008

Board of Commissioners
Tuscola County Road Commission
Caro, Michigan 48723

We have audited the financial statements of the governmental activities of Tuscola County Road Commission as of and for the year ended December 31, 2007, and have issued our report thereon dated April 20, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Tuscola County Road Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Tuscola County Road Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Tuscola County Road Commission's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Tuscola County Road Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of Tuscola County Road Commission's financial statements that is more than inconsequential will not be prevented or detected by Tuscola County Road Commission's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Tuscola County Road Commission's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Tuscola County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the management of the Road Commission in a separate letter dated April 20, 2008.

This report is intended for the information of management and the Board of County Road Commissioners. However, this report is a matter of public record and its distribution is not limited.

Anderson, Tuckey, Bernhardt & Doran, P.C.

Anderson, Tuckey, Bernhardt, & Doran, P.C.
Certified Public Accountants



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April 20, 2008

Board of Commissioners
Tuscola County Road Commission

In planning and performing our audit of the financial statements of Tuscola County Road Commission as of and for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Road Commission's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Road Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Road Commission's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the Tuscola County Road Commission's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Tuscola County Road Commission's internal control.

Our consideration of internal control over financial reporting and internal control over compliance was for the limited purpose described above and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

The following comments relate to certain of the Tuscola County Road Commission's accounting, financial and administrative policies and procedures that we observed during the course of our audit. These matters are not considered control deficiencies or material weaknesses as defined by professional standards.

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Prior Year Repeat Comments

Under Funded Pension Plan

The Watkins, Ross & Co Actuarial Valuation Report dated March 31, 2008 indicates the Road Commission's Pension Plan is dramatically underfunded. The underfunded actuarial liability at that time was in excess of \$450,000. The Road Commission contributed \$50,000 to the plan in June of 2007, however the actual contribution for 2007 was approximately \$37,000 less than what the actuary recommended. In order to meet the 30-year amortization minimum contribution goal, contributions should be increased significantly.

We recommend the Road Commission review their pension plans and take the necessary actions to improve the funded status.

GASB 45

The Government Accounting Standards Board issued Statement Number 45, *Financial Reporting for Post Employment Benefit Plans Other Than Pension Plans*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" post employment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ended December 31, 2008.

We recommend that the board contact an actuary or find an alternative method to determine the amount of the liability that will have to be recorded to comply with this new requirement.

Current Year Comments

Cash in lieu of fringes

At the present time, certain retired employees are paid a cash stipend if they elect not to be covered under the Road Commission's health insurance plan. The Internal Revenue Service classifies this as taxable income, and as a result these payments should be reported on a form W-2.

Equipment leases

Michigan law and sound fiscal policy require that bids be obtained on certain purchases. The Road Commission currently does not obtain bids on equipment leases. We recommend that in the future the Road Commission obtain bids on all leases over a certain specified amount.

Commuting mileage

Certain supervisory employees are on call twenty-four hours a day and as a result are required to drive Road Commission vehicles to their homes. These employees are prohibited from using these vehicles after hours for personal use. Under these circumstances IRS regulations require that \$3 per day for each day worked be added to the employees W-2. We recommend the Road Commission implement this change during the 2008 calendar year.

Excess Budget Expenditures

We noted that actual expenditures exceeded that of the adopted budget. If expenditures exceed budgeted amounts, the budget must be amended. Section IV-2 of Public Act 621 requires that the budget be amended prior to expenditures being made. The budget may not be amended after year-end. We recommend the Road Commission review the budget requirements under P.A. 621 to avoid this problem in the future.

Board of Commissioners
April 20, 2008
Page three

We appreciate the opportunity to be of service to Tuscola County Road Commission and look forward each year to continuing our relationship. The cooperation extended to us by your staff throughout the audit was greatly appreciated. Should you wish to discuss any item included in this letter further, we would be happy to do so.

Very truly yours,

Anderson, Tuckey, Bernhardt & Doran, P.C.

Anderson, Tuckey, Bernhardt & Doran, P.C.
Certified Public Accountants



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April 20, 2008

Board of Commissioners
Tuscola County Road Commission
Caro, MI 48723

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Tuscola County Road Commission for the year ended December 31, 2007, and have issued our report thereon dated April 20, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated January 19, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters in February, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Tuscola County Road Commission are described in Note 1 to the financial statements. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the financial statements were:

Management's estimate of property tax revenue is based on levies. We evaluated the key factors and assumptions used to develop property tax revenue in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of deferred expense is based on road project allocations. We evaluated the key factors and assumptions used to develop deferred expense in determining that it is reasonable in relation to the financial statements taken as a whole.

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The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The disclosure of pension plans in Note 13 to the financial statements indicates an underfunded pension obligation.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated April 20, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Commissioners and management of the Tuscola County Road Commission and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Anderson, Tuckey, Bernhardt & Doran, P.C.

Anderson, Tuckey, Bernhardt, & Doran, P.C.
Certified Public Accountants